MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BFN 3114 – TAX PLANNING

(Section BO1)

31 MAY 2017
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** printed pages including cover page with **THREE (3)** questions only.
2. Answer **ALL** questions.
3. Please write all your answers in the answer booklet provided.
4. Marks allocations are shown at the end of each question.

QUESTION 1

(a) Yusof is an employee of TM Berhad since 1 July 2003. His income for the year end 31 December 2016 was as follows:

	RM
Salary per annum	84,000
Bonus	7,000
Travelling allowance	8,000
Leave passages (with his wife):	
- Sabah	3,000
- Australia	7,000
- India	5,000
- Langkawi	2,500
Cost of the car (new)	98,000
Fuel	2,400
A driver salary (reimbursed)	9,900

During the year, Yusof incurred the following expenses:

i. Contributions to Employees Provident Fund (EPF) of RM6,100
ii. Medical expenses for himself of RM2,300
iii. Zakat of RM2,450

Yusof is married to Hanum and they have 4 children. The details of their children are as follows:

a) First child, 25 years old working at Petronas, unmarried.
b) Second, 21 years old, unmarried and studying for a degree program at Multimedia University.
c) Third, 17 years old, a secondary school student.
d) Fourth, 12 years old, studying at a primary school.

In addition, in 2016, Yusof also gave a series of trainings on multimedia issues to university students and he received an honorarium of RM5,000. He also received interest income from his fixed deposit in Bank Citizen, Singapore, amounting to RM6,000.

Hanum was a general manager in Prime Corp Bhd. She commenced her employment on 1 July 2000 and retired officially on 31 December 2016 at the age of 56 years. She received the following income and benefits in the year 2016:

	RM
Salary	108,000
Gratuity	15,000
Entertainment allowance	2,500
Travelling allowance	12,000

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She was provided with the following benefits by her employer:

i. A fully-furnished house with a monthly rental RM2,200 (including RM1,000 for furnishing).
ii. A car costing RM120,000 (purchased in 2002) together with fuel of RM250 per month.
iii. A driver at a salary of RM1,500 per month employed by the employer from 1 April 2016.

During the year, Hanum incurred the following expenses:

i. Medical expense for her mother of RM7,000.
ii. Cash donation to an approved institution of RM1,000.
iii. Employees Provident Fund (EPF) contributions of RM7,500.
iv. Zakat of RM2,700.

Required:
Compute the chargeable income and the tax payable of Yusof and Hanum for the year of assessment 2016. Yusof will claim for child reliefs.

(40 Marks)

QUESTION 2

(a) Mr. Suresh worked in Selangor, Malaysia for several years and was regarded as a tax resident for all relevant years of assessment (YA) up to and including YA2011. Following the memorandum of understanding (MOU) with company from Thailand, Suresh was assigned to the Bangkok office on 1 December 2012. He worked there until the contract ended and he returned to Malaysia on 1.6.2014.

On 1.7.2015, Mr. Suresh received a job offer from an international company in Austria. He joined the Austrian company on 15.7.2015. After a year, he returned to Malaysia on 1.8.2016 to assist in the establishment of a Malaysian branch of the international group. He was offered to oversee and operate this new branch. He never left the country, Malaysia since then.

Required:
For Malaysian income tax purposes, determine Mr. Suresh's residence status for the year of assessment 2011 to 2016, explaining your basis for the determination and quoting the relevant provisions of the Income Tax Act 1967 (as amended).

(10 marks)

Continued...

b) Suria Sdn Bhd ('the company'), an investment holding company had invested in an oil palm plantation (acquired in 2000) in Nilai, Negeri Sembilan. Initially, the company planned to develop the plantation land sometime in the future. In the meantime, it derived income from the sale of the oil palm fruits. However, in 2017, the land was compulsorily acquired by the Government for a new railway route, in line with the government plan for better public transportation. As a result, the company was paid for compensation of RM4 million on 15 of May 2017.

Required:
State, with reference to the badges of trade, the tax liability of Suria Sdn Bhd in respect of the sum of RM4 million received on 15 May 2017.

(5 marks)

c) Sarah and Dorrah are good friends. They had just completed their diploma in culinary arts. Due to the difficulty in getting a job, they have decided to run a business from home. After a long discussion, they agreed to set up a food catering business. Dorrah will provide all the capital for setting up the business. Sarah will do the cooking and oversea the operation of the business. Sarah will receive a fixed salary and 20 percent of the sales proceeds. Dorrah will receive the balance after taking into account all other operating expenses.

Required:
Explain with reasons whether a partnership exists. (5 marks)

[Total: 20 marks]

QUESTION 3

a) Raja operates a sole-proprietorship business known as RJ Enterprise since 2010. The profit and loss account of the business for the year ended 31 December 2016 is appended below:

RJ Enterprise
Profit and Loss account for the year ended 31 December 2016

	Note	RM	RM
Sales		700,000	
Less: Cost of sales		(310,500)	
Gross profit			389,500
Add: Other income			
Rental income			8,200
Single tier dividend			12,900
			410,600
Less: Expenses			
Advertisement		5,700	

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Staff welfare	1	11,000	
Bad debts	2	6,500	
Depreciation		8,450	
Entertainment	3	3,000	
Approved donation		1,200	
Motor vehicle expenses	4	12,400	
Water and electricity	5	10,100	
General expenses		3,500	
Legal fees	6	4,200	
Staff salaries		145,000	
Freight and insurance	7	2,500	
Loss on the disposal of an asset	8	800	
Rental of premises	9	26,000	240,350
Profit before taxation			170,250

Notes:

1. Staff welfare of RM11,000

This amount includes RM8,000 in respect of staff medical and dental expenses. The balance of RM3,000 was incurred for staffs' annual dinner held at LA Hotel, Putrajaya.

2. Bad debt of RM6,500

In addition to RM2,000 in respect of a trade debt written off, the bad debts charged to the account include an advance of RM4,500 made to an employee two years ago, which is now not recoverable. No provision was previously been made for the debt written off.

3. Entertainment of RM3,000

This amount includes RM1,000 in respect of a lunch treat for the company's clients (wholly related to sales). The balance of RM2,000 was incurred on business promotional gifts which had incorporated the business product logo.

4. Motor vehicle expenses of RM12,400

This refers to expenses paid for the following:	**RM**
Insurance on motor vehicles used in the business	2,900
Repair and maintenance expenses for business vehicles	9,000
Traffic summons	500
	12,400

5. Water and electricity of RM10,100

This is in respect of the following:	**RM**
Water and electricity consumed	9,550
Late payment penalty on electricity bill	550
	10,100

Continued...

6. Legal fees of RM4,200

This refers to fees incurred for the following:	RM
Collection of trade debts	2,500
Bank loan arrangements	1,300
Cost of income tax appeal	400
	4,200

7. Freight and insurance of RM2,500 refers to a premium paid to an insurance company incorporated in Malaysia for the imported goods.

8. Loss on disposal of an asset of RM800

This was computed as follows:	RM
Disposal of assets	1,300
Net book value of asset	2,100
Loss on disposal	(800)

9. The rental of premises includes RM6,000 paid in advance for the months of November 2016 to January 2017.

10. The capital allowances for the year of assessment 2016 amounted to RM16,800 and balancing allowances was RM1,400.

Required:

Compute the total income of RJ Enterprise for the year of assessment 2016.

Note: Start your computation with profit before taxation figure and indicating 'NIL' in the appropriate column for item that does not require adjustment.

(40 marks)

End of question

APPENDIX 1

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates for resident individuals for the year assessment 2016.

	Chargeable Income	Tax Rate	Income Tax Payable
	RM	(%)	RM
First	**2,500**	**0**	**0**
Next	2,500	0	0
On	**5,000**		**0**
Next	5,000	1	50
On	**10,000**		**50**
Next	10,000	1	100
On	**20,000**		**150**
Next	15,000	5	750
On	**35,000**		**900**
Next	15,000	10	1,500
On	**50,000**		**2,400**
Next	20,000	16	3,200
On	**70,000**		**5,600**
Next	30,000	21	6,300
On	**100,000**		**11,900**
Next	50,000	24	12,000
On	**150,000**		**23,900**
Next	100,000	24	24,000
On	**250,000**		**47,900**
Next	150,000	24.5	36,750
On	**400,000**		**84,650**
Exceeding	400,000	25	……..

Non-Resident Individual Rate for employment income (year of assessment 2016)

Non-resident person other than non-resident companies: 28%

Capital allowances

	Initial Allowance	Annual Allowance
Office equipment, furniture and fittings	20%	10%
Plant and machinery – general	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

Benefits in Kind (BIK)

(a) Household Furnishings, Apparatus & Appliances

	Types Of BIK	Annual Value Of BIK
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully-furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)
(d)	Service charges and other bills such as for water, electricity and telephone.	Service charges and bills paid by the employer.

Gardener	RM 3,600 per annum
Domestic servant	RM 4,800 per annum
Driver	RM 7,200 per annum

(b) Value of motor vehicles

Cost of vehicles (new) RM	Annual Value of BIK RM	Fuel per annum RM
Up to – 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 – and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car is provided is more than five (5) years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600 per month.

Reliefs

	RM
Self	9,000
Disabled self- additional	6,000
Medical expenses expended for parents (max)	5,000
Medical expenses expended on self, spouse or child with serious decease, [including up to RM500 for medical examination (max)]	6,000
Basic supporting equipment for disabled self, spouse, child or parent (max)	6,000
Fees expended for skills or qualifications (max)	7,000
Expenses on books for personal use (max)	1,000
Spouse relief (if he or she has no source of income or elects for combined assessment)	4,000
Disabled spouse	3,500
Child below 18 years (each)	2,000
Disabled child unmarried (each)	6,000
Child- over 18 years of age and studying in higher learning institution	8,000
Amount deposited to SSPN for his child (max)	6,000
Life insurance premiums and contributions to approved provident funds (max)	6,000
Medical or education insurance premiums for self, spouse or child (max)	3,000
Purchase of personal computer (max)	3,000
Purchase of sports equipment	300
Interest paid on housing loan (1st residential property)	10,000
Broadband subscription fee	-
Private retirement scheme or annuity premium (max)	3,000
Parental care – father or mother each	1,500

Rebates

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

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